New Challenges,
New Energy

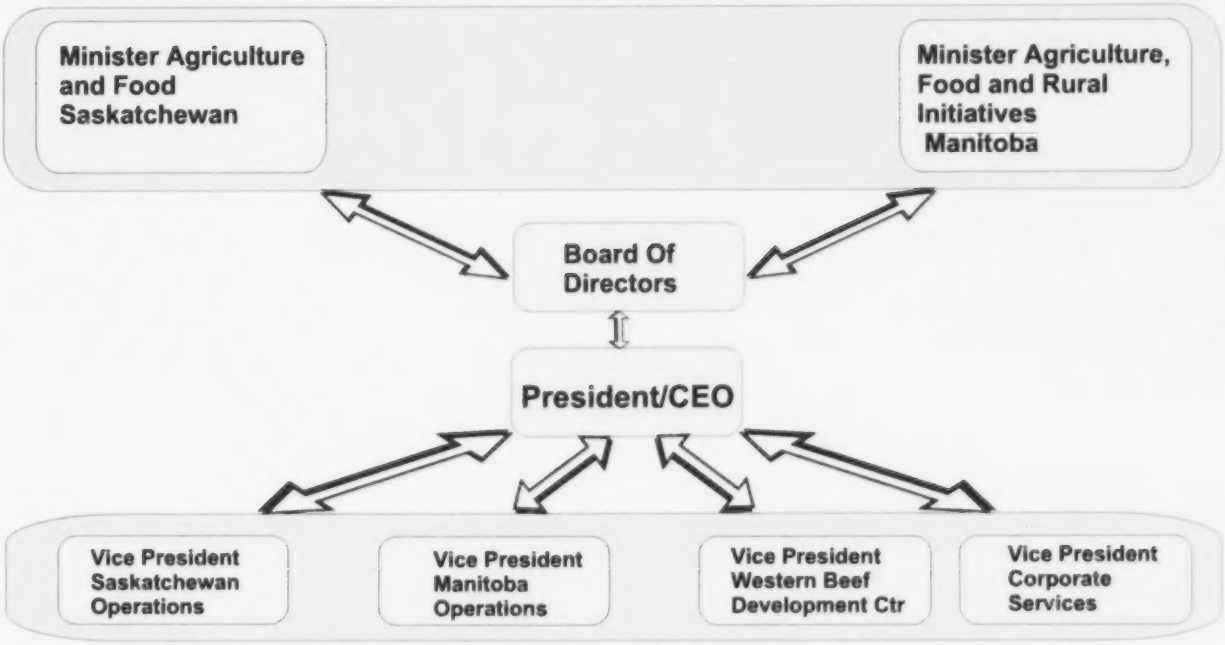
Prairie Agricultural Machinery Institute

Annual Report 2005 - 2006

Mission Statement

PAMI drives economic development by applying innovative technologies on a fee-for-service basis. Our unique, dynamic, hands-on team serves clients in:

Agricultural production and processing
Transportation, and military vehicles and systems
Related industries


Minister Agriculture and Food Saskatchewan
Minister Agriculture, Food and Rural Initiatives Manitoba
Board Of Directors
President/CEO
Vice President Saskatchewan Operations
Vice President Manitoba Operations
Vice President Western Beef Development Ctr
Vice President Corporate Services

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Letters of Transmittal

PAMI

Humboldt, Saskatchewan

March 31, 2006

Honourable Mark Wartman
Minister of Agriculture and Food,
Province of Saskatchewan

Honourable Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives,
Province of Manitoba

It is my honour to present the annual report of the Prairie Agricultural Machinery Institute for the year ended March 31, 2006.

Respectfully submitted,

Loren Katzenberger, Chairman
Prairie Agricultural Machinery Institute

Honourable
Rosann Wowchuk
Minister of Agriculture, Food and Rural Initiatives,
Province of Manitoba

March 31, 2006

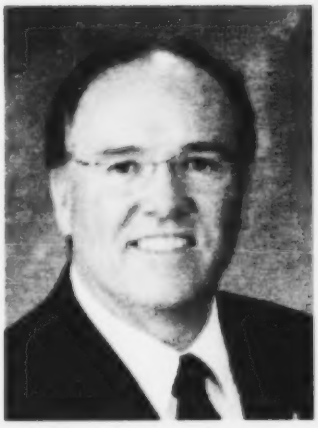
Honourable Dr. Lynda Maureen Haverstock
Lieutenant Governor,
Province of Saskatchewan
Chancellor of the Saskatchewan Order of Merit

Your Honour:

I have the honour to submit the annual report of the Prairie Agricultural Machinery Institute for the year ended March 31, 2006. It includes the Financial Statements audited by the Provincial Auditor.

Respectfully submitted,

Honourable Mark Wartman
Minister of Agriculture
and Food,
Province of Saskatchewan



Honourable Mark Wartman
Minister of Agriculture and Food,
Province of Saskatchewan

Chairman's message

Loren Katzenberger,
Chairman
Prairie Agricultural Machinery Institute

"New Challenges, New Energy" speaks volumes to the vision and the confidence with which PAMI is moving forward.

It's my pleasure to report on behalf of our Board of Directors, for the 2005/06 business year. Our core industry – Agriculture, is poised to make transformational change over the next few years. And our organization is already adapting to meet the science and innovation needs of this transformation.

As economic forces move capital investment, human resources, and business focus within our nation and the world, we are pleased that we have been able to expand our organization, draw significant investment, and focus on the opportunities of our sector and our clients.

Our developments in bio-digestion and beef research add to our already formidable capability in primary production, processing, and beyond into other critical sectors within our provinces' economies.

Change must be strategized and mapped, from the highest levels right down to the grassroots. We are pleased that our executive, by appointment to Minister Wartman's Farm Leader's Advisory Group (FLAG), are helping to map the steps needed for transformational change in agriculture.

This year brought change to our Board, and I would like to say both 'farewell' and 'welcome' to some honoured members. Tom Lowes, PAMI's long-standing Board Chair, has retired after serving 6 years. Tom guided the organization through a very difficult period in agricultural history, and our appreciation goes to him for his service. Dr. Allan Preston joins the Board as a Director from Manitoba and Lorne Christopherson has also joined us as a new Director from Saskatchewan. I am honoured to have been appointed to the Board this year, to act as Chairman. Bill Zettler, from Manitoba continues in his role as Vice-Chair, while Dr. Abdul Jalil continues as a Director from Saskatchewan.

Our theme, "New Challenges, New Energy" speaks volumes to the vision and the confidence with which PAMI is moving forward into the new year. I thank our Board for their guidance and our executive and staff for their dedication and hard work over the past year. I know we will meet the new challenges ahead with new energy and a determination to succeed.

Loren Katzenberger,
Chairman
Prairie Agricultural Machinery Institute

PAMI Board of Directors

Loren Katzenberger, Chairman
PIMA - Agricultural Manufacturers of Canada
Bill Zettler, Vice-chairman
Manitoba Producer
Dr. Abdul Jalil,
Saskatchewan Agriculture and Food
Dr. Allan Preston,
Manitoba Agriculture, Food and Rural Initiatives
Lorne Christopherson
Saskatchewan Producer

President/CEO's message

I have the honour of reporting on the 2005/06 business year.

This was an exceptional year, with more than a few 'firsts' for our organization. We posted an all-time record in project revenue from our clients in agriculture and other industry sectors. At almost $4.3 million our contract revenue from project work exceeded any other year in our history by 43 per cent, and exceeded the previous year's performance by 79 per cent! Our people conducted 311 projects on their way to earning this revenue and I can report that in addition to 28 per cent more staff, a lot of midnight oil was burned in order to keep every commitment we made, and post a surplus on operations of over $227,000.

Our governments sustained and deepened their investment in new areas for PAMI this year. In Manitoba, PAMI is being prepared to help explore and implement opportunities in areas of agri-energy and fibre. In Saskatchewan, funding was provided to lay the foundation for Western Beef Development Centre's (WBDC) new home within PAMI. We are fortunate to also receive funding from the Horned Cattle Purchases Fund for operations of the WBDC.

The bio-economy is emerging, with new and urgent demands for science and innovation. In addition to a slate of crop and livestock production technology work, we had significant demand for work in bio-digestion, whole crop harvesting, and a host of other projects related to bio-fibre, nutraceuticals, bio-energy and other innovations in this emerging sector.

We continued our service within the agricultural safety network across North America through the Canadian Agricultural Safety Association. We have also continued and strengthened our partnership with the Department of National Defence and Defence R and D Canada to deliver technology development projects focused on keeping Canadian troops safe while working in foreign theatres.

Each year we ask our clients to rate their satisfaction with our work. This year they scored us overall at 8.5 out of 10. We monitor this and other performance indicators, such as our ISO 9001:2000 quality assurance system, which is in its eighth straight year of good standing.

We are completing 2005/06 as a bigger, healthier and more broadly capable organization. As we look back, 'New Challenges, New Energy' really speaks for our accomplishments over the past year. But even more, it represents the confidence we have in contributing to the transformation in agriculture in the coming year!

David Gullacher
President/CEO
Prairie Agricultural Machinery Institute

David Gullacher
President/CEO
Prairie Agricultural Machinery Institute

We are completing 2005/06 as a bigger, healthier and more broadly capable organization.

The Prairie Agricultural Machinery Institute

The Prairie Agricultural Machinery Institute (PAMI) was established in 1975 as an applied research, development, and testing organization to provide a unique resource to farmers and agricultural machinery manufacturers on the Canadian prairies. After more than 30 years, PAMI's client base has expanded to include the transportation, military/peacekeeping, aeronautics, forestry, and mining industries. The organization is recognized as a technology leader around the world.

PAMI earns about 75 per cent of its revenue from fee-for-service work for its clients. The remainder is provided through grants by the governments of Saskatchewan and Manitoba. PAMI provides its services through technical divisions in Humboldt, Saskatchewan, and Portage la Prairie, Manitoba. PAMI is ISO 9001:2000 registered.

Harvesting Technologies

PAMI has 30 solid years of grain harvester testing and development.

Efficient and effective equipment is crucial to a successful harvest, one of the most critical processes conducted on the farm today. PAMI has 30 solid years of grain harvester testing and development projects. In addition to the traditional focus of adapting harvesters to work more effectively in our prairie conditions, PAMI is addressing some new requirements related to harvesting new, diversified crops and also harvesting straw and chaff for use as bio-products.

Whole Crop Harvesting

While traditionally, harvesting the seed of a crop has been the focus, demand continues to expand for all components of the crop, including the straw for processes such as straw board manufacturing and ethanol production. Modified harvesting systems are required to meet these needs. In the past year, PAMI conducted a project to measure parameters including work rates, fuel consumption, and effect on product quality of different whole crop harvest systems. A spreadsheet was developed that allowed different machinery systems to be modeled.

Pickup Header

Stripper Header

In the spring of 2006, PAMI and AAFC hosted a workshop with involvement of research and industry stakeholders to share current knowledge of researchers and industry on whole crop harvesting and utilization. As a result of this collaboration, more research will continue this coming year with focus on field measurements of a stripper header under various conditions.

Harvest Equipment Development

PAMI continued to conduct harvest equipment development projects to produce more efficient and functional equipment for the prairie farmer. These projects are generally conducted for farm equipment manufacturers on a fee-for-service basis. Since confidentiality is often important to the client, detailed discussion of specific projects is necessarily limited.

Recent projects have focused on combine header components. Expertise has been developed around our unique conditions and the resulting components not only benefit our farmers, but are also resulting in locally manufactured products and the associated jobs in Saskatchewan.

Crop Production Technologies

PAMI continues to research and develop equipment and machinery for more efficient and effective crop production - traditional crops as well as new crops that offer expanded economic opportunities to producers. In addition to research on evolving seeding systems, projects are conducted on developing more optimal fertilization systems.

Low Disturbance Mechanical Weed Control

Organic farmers want to capitalize on many of the benefits of direct seeding and minimal tillage such as reduced soil erosion, fewer tillage operations, and retaining standing stubble. However, chemical weed control is not an option so weeds must be mechanically managed. PAMI is undertaking a project to develop a shallow, low soil disturbance tiller that can operate in direct seeded crops just before they begin to sprout. In this way, the quicker germinating weeds can be killed or their growth retarded to enable the seeded crop to establish under less competitive conditions. The feasibility of blade type weeders that run at shallow depths (less than 2 inches) and destroy weeds while minimally disturbing the surface soil and stubble composition is being explored.

Low Disturbance Blade Weeders.

A 3-point hitch gauge wheel toolbar with accurate depth and pitch adjustments was developed for tillage tool testing. Two types of "V" type tillage tools with and without modifications and one straight blade were tested in cereal stubble conditions. Low lift "V" type and straight tillage tools with low sweep pitch provided the least soil disturbance, especially when combined with edge-on shank mounts. Unfortunately, none of the tillage tools including modified blade openers were able to operate at depths of less than 2 inches.

Solid Manure Injection

Normal practice is to spread solid manure directly on the soil surface. This results in odour, greenhouse gas emissions, and nutrient losses. Liquid hog manure is currently injected, but injecting solid manure injection presents many challenges.

In partnership with the University of Saskatchewan, PAMI developed a concept prototype of a machine that can inject solid cattle manure into the soil. The prototype will be scaled up to a full-scale unit and will undergo testing this coming year.

Solid Manure Injector.

Silvopasture

The agronomics of new crops has even extended into the area of growing trees on agricultural land, known as agro-forestry. This practice offers a very good return on investment compared to traditional farm crops. However, revenue is normally deferred for 20 years until the trees have matured and can be harvested.

Silvopasture, a form of agro-forestry, is the growing of trees on pastureland. This combines annual livestock revenue with the eventual tree sale revenue. PAMI and the Saskatchewan Forest Centre have initiated a silvopasture demonstration project to determine the applicability of this practice in Saskatchewan.

Agro-forestry offers a very good return on investment compared to traditional farm crops.

Highlights - 2005/06

Bio-processing

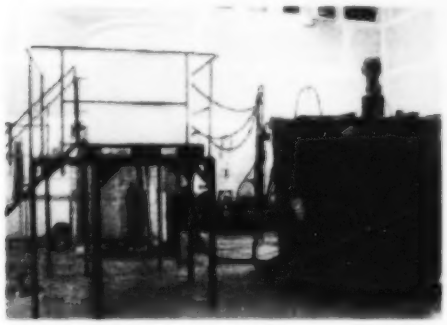
Excitement continues to grow around value-added bio-processing opportunities for agricultural products. Whether the focus is on the fuel potential of ethanol, biodiesel, or biogas, using crop fibre for 'green' products, or processing crops to extract high value components such as neutraceuticals or essential oils, PAMI is playing a role. PAMI's Crops Development Processing Centre enables bio-processing projects to be conducted in a quick and effective manner. The recent addition of a chemical engineer to the staff has broadened PAMI's capabilities.

PAMI is playing a role in the development of value-added bio-processing opportunities for agricultural products.

Pilot Biodigester

Biodigesters convert organic wastes into energy and fertilizer while reducing odour and greenhouse gases. However, these biodigesters are multi-million dollar facilities and their ideal design depends on knowing what the specific 'feedstock' will produce as end products.

With support from Western Economic Diversification and Saskatchewan Industry and Resources, PAMI designed and constructed a pilot-scale biodigester to allow design criteria for full-scale units to be determined quickly and economically.



Pilot Biodigester.

Small Scale Essential Oil Extractor

The Saskatchewan Herb and Spice Association identified its need for a pilot-scale, portable essential oil extractor. PAMI received funding from Saskatchewan's Agriculture Development Fund to complete the design and fabrication of such an extractor with both seed and foliage capability. This extractor is to be used primarily at the PAMI Crops Development Processing Centre for research in the optimization of essential oil extraction and for toll processing runs on an on-going basis of raw material for small-scale producers.

PAMI applied its own knowledge to the project and obtained further information from POS Pilot Plant scientists, the Saskatchewan Herb and Spice Association, and those involved in a similar Alberta Agriculture project. This project will produce a durable, trailer-mounted, and small-scale essential oil extractor capable of handling 0.250 cubic metre batches of foliage and up to 50 kilograms per hour of seed.

Applied Technologies

Applied technology projects strengthen industry and enhance economic development and job creation.

PAMI's unique hands-on applied machinery development and testing services is also supporting other industries in our provinces and across Canada. Generally, projects apply technology to strengthen these industries and, in doing so, enhance economic development and job creation. In most cases, these benefits are occurring in rural areas, providing indirect support to the agricultural sector.

Standards Compliance

PAMI conducted several standards compliance-testing projects again this year. Projects included testing of a ROPS (rollover protective structure), ambulances, street sweepers, a fire truck, and an HVAC (heating, ventilating, and air conditioning) system.

Whether the work is conducted in our backyard or in the City of Toronto, clients appreciate PAMI's facilities and standards-related expertise. Two PAMI staff members are members of Canadian Standards Association standards committees.

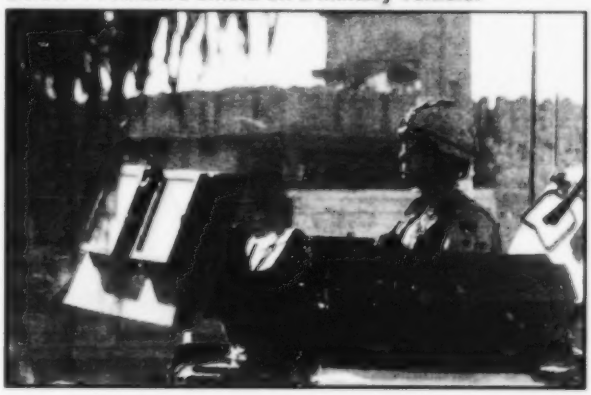
Applied Technologies (continued)

Military

PAMI provides engineering services to the Department of National Defence (DND) and its research arm Defence R&D Canada under a Government-to-Government Memorandum of Understanding (MOU). This MOU relationship especially benefits DND in times during heightened international tensions when DND needs ready access to pre-competitive engineering and impartial testing to support their programs that sustain troops deployed overseas. The MOU allows PAMI to exercise its engineering and fabrication expertise across a wide spectrum of technical subjects. As well, it allows for technical growth of our services to our agricultural clients.

The DND program has matured to include research and development, prototype equipment design, testing to support capital acquisition support, and prototype fabrication. Projects were aimed at mechanical land mine removal to increase the safety for farmers and other residents in developing countries, and specialized armour protection on military service vehicles to improve the safety of Canadian troops in Afghanistan.

Below: Protective shield on a military vehicle.



Farm Safety

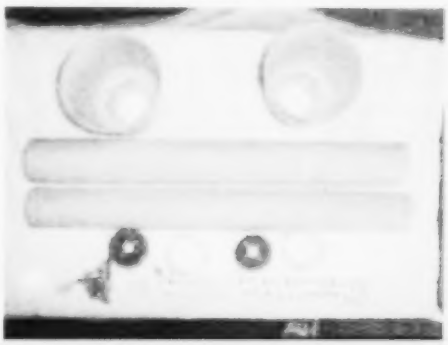
PAMI has been working with the Canadian Agricultural Safety Association (CASA) to improve the safety of older farm equipment. Considerable work is occurring to improve the safety of new equipment, but limited engineering effort is spent on older equipment in Canada. CASA and PAMI are working to bridge that gap. In addition to major projects listed below, PAMI has also developed an ergonomic pot lifter with the British Columbia Farm and Ranch Safety and Health Association to reduce back injuries in greenhouses.

ROPS on Older Tractors

Tractor rollovers are the leading cause of fatalities on Canadian farms. ROPS (roll over protective structures) have been shown to virtually eliminate fatalities from tractor rollovers. All new tractors are equipped with ROPS, but older tractors generally are not. There are estimated to be several hundred thousand tractors in Canada without ROPS. To improve farmer access to ROPS for older tractors, PAMI has adapted a guidebook developed in the United States on ROPS for Older Tractors. It is now available on our website.

PTO Guarding

Power-take-offs (PTOs) are one of the leading causes of serious farm injuries. Entanglement in PTOs can be prevented if proper guarding is in place, which is usually the case on new equipment but may not be the case on older equipment. PAMI has developed a guide for farmers to allow them to easily and economically access, install, and maintain PTO guarding on their older equipment. It is now available on our website.



Left: Australian Universal PTO Guard

National and International Activities

Much of the work PAMI undertakes has implications nationally as well as in other parts of the world. In addition to the efforts conducted on behalf of the National Department of Defence, which has impacts both at home and abroad, PAMI engineers are involved in equipment testing in various locations such as Australia, Europe, USA, and elsewhere. PAMI's contributions to the farm safety issue are applicable across Canada, and beyond. PAMI uses this exposure to international technologies and practices to bring home and apply to our agricultural and other provincial industries.

Pami's international reputation for excellence played a major role in being selected to provide services to the Mexican Government Research Agency.

PAMI's international reputation for excellence played a major role in the organization being selected to provide services to the Mexican Government Research Agency, INIFAP (Instituo Naciaonal de Investigaciones Forestales , Agricolas y Pecuarias). PAMI won a worldwide competition over competitors from three other nations in order to secure this $500,000 contract.

The project supplied technology to INIFAP to test agricultural tractors manufactured in Mexico to the international standards (ISO) for three point hitch, hydraulic power, and roll over protective structures (ROPS). This will ensure tractors built in Mexico meet world safety and performance standards.

The ROPS Guidebook is one example of information available on PAMI's website

PAMI staff assisted INIFAP in the design of fixtures, instrumentation, and data acquisition software. Equipment was acquired and fabricated, and the system was set up and commissioned at the client's facility in Texcoco, Mexico. PAMI also trained INIFAP staff on how to use the system. Canadian partner companies were employed throughout the project to supply needed resources.

This project has strengthened ties with the Mexican government as an example of work that is possible with our NAFTA (North American Free Trade Agreement) partner. INIFAP is exploring other business opportunities with PAMI.

Agricultural Partnerships

Partnerships with industry, governments, and other organizations are critical to the manner in which PAMI shares its expertise and experience to promote sustainability of the agricultural industry and to contribute to the community at large.

Some examples of these partners include organizations such as the Saskatchewan Herb and Spice Association, Saskatchewan Forestry Centre, the universities of Saskatchewan and Manitoba, and many industry organizations. PAMI's association with agencies of the governments of Manitoba and Saskatchewan provides benefits to all involved.

PAMI staff attended a number of conferences and trade shows to promote the corporation, share its knowledge, and to remain cognizant of the latest developments in the industry. Ongoing liaison and discussion continued with major agricultural manufacturers, auto manufacturers, the mining and forestry industries, and government agencies.

PAMI has expanded its service to the beef cattle industry and has established new relationships with the livestock sector and associated agencies. In addition, PAMI provided representation to boards and committees of many industry organizations.

Information Services

Information Services plays a critical role in distributing PAMI information to producers, governments and industry. The organization's website plays an increasingly important role in this function. PAMI's excellent research library continues to provide information and support to staff and producers.

The Information Services team participated in about 70 activities throughout the year, including exhibitions, workshops, field days, tours, conferences and other information activities. News items were released to the media on a regular basis.

Beef Cattle Research

Effective April 1, 2005 the Western Beef Development Centre (WBDC) commenced operations as an independent division of PAMI. Through the operation of the WBDC, PAMI will combine animal and plant science with machinery engineering to reduce the industry's growth limitations due to labour intensity, optimize grazing, feed usage and crops-livestock interfaces, and optimize the use of manure as fertilizer.

Background

Transfer of WBDC operations from the University of Saskatchewan to PAMI was facilitated through legislation passed by the Saskatchewan Legislature. The centre is funded through an annual grant from the Canada-Saskatchewan Agri-Food Innovation Fund, two Strategic Research Chairs funded through Saskatchewan Agriculture and Food, sales of the annual calf crop, and fee-for-service activities.

A Strategic Advisory Committee has been appointed to provide guidance and direction to the PAMI Board regarding the operations of the WBDC.

The WBDC's mission is to increase the profitability of the cow-calf industry in Saskatchewan. This will be accomplished through research in the management and economics of cow/calf production, grazing management of perennial and annual forages, and sustainable cow/calf production systems.

A field day at WBDC

The WBDC manages two Saskatchewan locations. The Termuende Research Farm near Lanigan is home to most of WBDC's research and on-site demonstrations. The Farm has about 1900 acres of primarily perennial forage crops and pasture, 300 commercial cow/calf pairs, pen capacity of up to 1500 head, and state-of-the-art livestock handling facilities.

The Pathlow Pasture offers summer pasture on its 960-acre perennial forage pasture located southwest of Melfort.

During the year, the WBDC attended many public events providing information to producers and researchers. Some major events hosted during the year were the field day at the research farm and four cow/calf schools around Saskatchewan. Two research projects are highlighted below.

Forage-Based Production Systems

Extending the summer grazing period for cattle can reduce the use of stored feed and decrease the cost of over-wintering. Extending the grazing season requires high-yielding forage varieties that are of good nutritional quality and will persist in western Canada.

Western Beef Development Centre is conducting a multi-year trial at the Termuende Research Farm, to evaluate the grazing suitability of Goliath crested wheatgrass, Paddock meadow bromegrass, Carlton smooth bromegrass, AC Knowles hybrid bromegrass, and Courtney tall fescue.

WBDC Strategic Advisory Committee

Producers
Lorne Christopherson, CHAIR
Wilf Campbell
Tim Oleksyn
Bob Ivey
Pat Hayes
Dale Sigurdson
Gary Wellbrock

Research Community
John McKinnon, U of S
Norman Rawlings, U of S

Government Departments & Agencies
Jacquie Gibney, SAF
Scott Wright, SAF
John Popp, MAFRI
Brant Kirychuk, PFRA

PAMI

Each variety is grazed by yearling crossbred steers in a put-and-take stocking system, where stocking rate is varied in response to performance of the forage. Performance of each was compared to a control stand of old, established crested wheatgrass for cumulative dry matter yield, average daily gain, animal grazing days, and total beef production per hectare. In addition, grazed plant energy reserves are being evaluated each spring.

Results of this study will help producers choose productive forage varieties.

In 2005, Goliath crested wheatgrass yielded significantly higher forage production than all other varieties. The control crested wheatgrass had the lowest animal grazing days, while Courtney tall fescue, Paddock meadow bromegrass and AC Knowles hybrid bromegrass had the greatest. Courtney, Paddock, AC Knowles, Carlton, and Goliath each yielded higher beef per acre than the control. Additional results will include stand longevity and determination of net return per acre from these forage-based systems compared to annual cropped systems.

Results of this study will help producers choose productive forage varieties to optimize their grazing strategies, and to estimate the operating economics associated with each.

Swath Grazing

Winter Feeding Systems for Beef Cows

Traditionally in western Canada, the drylot feeding system is common practice for over-wintering beef cows. In this system, cattle are housed in pens, feed is hauled to them, and their manure is hauled away the following spring and field-applied. This system puts beef producers in western Canada at an economic disadvantage relative to other regions in North America. Western Beef Development Centre is performing a measured comparison between the traditional drylot system and several alternatives of field-feeding systems.

The study is being conducted with 180 crossbred pregnant beef cows at the Termuende Research Farm, over three consecutive winters. The field-feeding site is on barley stubble in 10-acre replicate paddocks. The field-feeding systems include round baled greenfeed, swath grazed barley and pile-deposited barley chaff and straw. The drylot system trial carried out nearby at the research farm will have round baled barley greenfeed fed to the animals from feeders. All feed is pre-analysed and all rations are balanced for energy and protein. Salt and minerals is supplied free-choice to the animals.

The study is expected to determine if different winter feeding systems affect cow performance or reproductive ability. It will also quantify the impact of each feeding system on manure organic matter and nutrient distribution across the field, and its relationship to yield in the subsequent annual crop. Economic information on each in-field feeding system in terms of the value of nutrient recycling and capture and the associated costs per cow will be determined.

Highlights - 2005/06

WESTEST 2005/06

Western Canada Testing Inc. (WESTEST) was established in 1991 to provide specialized testing and engineering services to a variety of clients. WESTEST is an ISO 9001:2000 registered company guided by its own Board of Directors. Personnel are provided to WESTEST on a contract basis by PAMI. About 240 WESTEST projects were conducted in 2005/06 in the areas of machinery and vehicles, packaging containers, mining, exporting, and other industries.

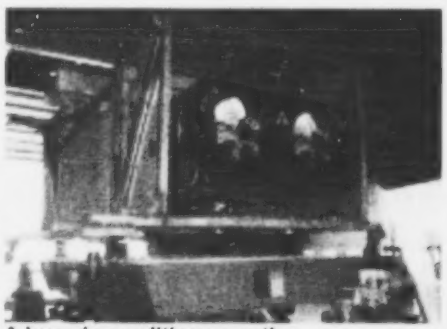
Acquired last year in partnership with the Vehicle Technology Centre, WESTEST's tow dynanometer is now operational. The tow "dyno" is a computerized rolling laboratory designed to be pulled by a truck, highway coach, or a similar vehicle to place a simulated load on the vehicle. The load may be varied to simulate different driving conditions such as going up hill to allow evaluation of a vehicle's power train performance and vehicle systems such as the cooling system. The addition of the tow dyno has greatly expanded WESTEST's ability to provide its clients with reliable, complete vehicle testing services.

In its inaugural test function, the tow dyno established the cooling system index of a highway coach. The test was very successful, ushering in a new era in technology at WESTEST.

WESTEST's MAST (Multi-Axial Simulation Testing) table has been well utilized in the past year conducting durability tests of various components of highway coaches, trucks and other vehicles, and farm equipment. These components include heating and air conditioning systems.

WESTEST's Force and Vibration Simulation Laboratory focused on several regulatory compliance projects over the past year including safety and durability testing of seat and seat belt anchorages for coach and RV applications in addition to rear bumper performance tests for the truck and trailer industry in response to changes in federal legislation. Work is expected to expand over time.

Together, these three facilities are proving to provide significant benefit to local manufacturers of highway coaches, farm equipment and other manufacturers by providing timely answers to difficult design questions..



A bus air conditioner on the MAST table.

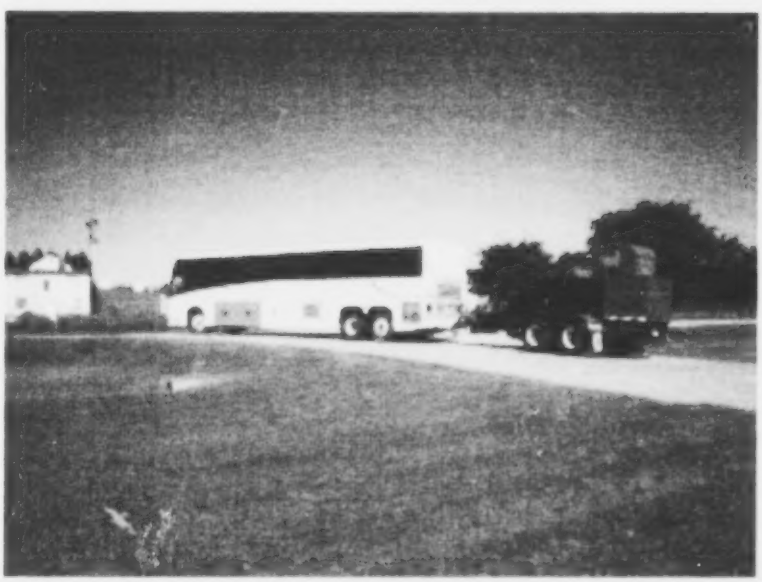
The Package Testing Group conducted nearly 200 tests on behalf of container manufacturers during the year. These tests related to hazardous goods and packaging regulations, and also to package function and performance in the multiple roles they must perform.

WESTEST and PAMI in partnership operate a drive-in environmental chamber allowing a variety of vehicle tests including cold start testing. WESTEST continues to provide specialized Euro-Compliance, rotary mower, and wire rope testing to meet specific industry needs.

WESTEST
Board of Directors

Jerry Engel, Chairman
Roger Ludwick, Vice-chairman
Directors:
Phil Reeves
Robert Malcolm
Don Watt
Loren Katzenberger
Tom McCrea
Doug Hilsabeek
Carol Vibert
Gary Anderson

WESTEST'S Tow Dynanometer.



AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited Prairie Agricultural Machinery Institute's (Institute) control as of March 31, 2006 to express an opinion as to the effectiveness of its control related to the following objectives.

- To safeguard public resources. That is, to ensure its assets are not lost or used inappropriately; to ensure it does not inappropriately incur obligations; to establish a financial plan for the purposes of achieving its financial goals; and to monitor and react to its progress towards the objectives established in its financial plan.
- To prepare reliable financial statements.
- To conduct its activities following laws, regulations and policies related to financial reporting, safeguarding public resources, revenue raising, spending, borrowing, and investing.

I used the control framework developed by The Canadian Institute of Chartered Accountants (CICA) to make my judgments about the effectiveness of the Institute's control. I did not audit certain aspects of control concerning the effectiveness, economy, and efficiency of certain management decision-making processes.

The CICA defines control as comprising those elements of an organization that, taken together, support people in the achievement of the organization's objectives. Control is effective to the extent that it provides reasonable assurance that the organization will achieve its objectives.

The Institute's management is responsible for effective control related to the objectives described above. My responsibility is to express an opinion on the effectiveness of control based on my audit.

I conducted my audit in accordance with standards for assurance engagements established by the CICA. Those standards require that I plan and perform an audit to obtain reasonable assurance as to effectiveness of the Institute's control related to the objectives stated above. An audit includes obtaining an understanding of the significant risks related to these objectives, the key control elements and control activities to manage these risks and examining, on a test basis, evidence relating to control.

Control can provide only reasonable and not absolute assurance of achieving objectives reliably for the following reasons. There are inherent limitations in control including judgment in decision-making, human error, collusion to circumvent control activities and management overriding control. Cost/benefit decisions are made when designing control in organizations. Because control can be expected to provide only reasonable assurance and not absolute assurance, the objectives referred to above may not be achieved reliably. Also, projections of any evaluation of control to future periods are subject to the risk that control may become ineffective because of changes in internal and external conditions, or that the degree of compliance with control activities may deteriorate.

In my opinion, based on the limitations noted above, the Institute's control was effective, in all material respects, to meet the objectives stated above as of March 31, 2006 based on the CICA criteria of control framework.

Regina, Saskatchewan
June 8, 2006

Fred Wendel, CMA, CA
Provincial Auditor

AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have made an examination to determine whether Prairie Agricultural Machinery Institute complied with the provisions of the following legislative and related authorities pertaining to its financial reporting, safeguarding public resources, spending, revenue raising, borrowing and investing activities during the year ended March 31, 2006:

The Prairie Agricultural Machinery Institute Act, 1999
The Prairie Agricultural Machinery Institute Regulations, 1999
Orders in Council issued pursuant to the above Legislation
Ministers Order's pursuant to the above legislation

My examination was made in accordance with Canadian generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, the Institute has complied, in all significant respects, with the provisions of the aforementioned legislative and related authorities during the year ended March 31, 2006.

Regina, Saskatchewan
June 8, 2006

Fred Wendel, CMA, CA
Provincial Auditor

AUDITOR'S REPORT

FINANCIAL STATEMENTS

For the Year Ended March 31, 2006

Management's Responsibility for Financial Statements

The Financial Statements and other related financial information contained in the annual report are the responsibility of management and have been approved by PAMI's Board of Directors.

Preparation of these statements has been done according to Canadian generally accepted principles. Financial data elsewhere in the annual report are consistent with information contained in the financial statements.

PAMI maintains a system of internal controls designed to provide reasonable assurance that the financial information is reliable and that the corporate assets are safe-guarded. The Provincial Auditor for Saskatchewan is appointed by legislation to annually audit the accounts and financial statements of PAMI. His report follows.

David Gullacher,
President/CEO

Barrie Broad,
Vice President,
Corporate Services

To the Members of the Legislative Assembly of Saskatchewan

I have audited the balance sheet of Prairie Agricultural Machinery Institute as at March 31, 2006 and the statements of revenues, expenses and net assets, and cash flows for the year then ended. The Institute's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Institute as at March 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Regina, Saskatchewan
June 8, 2006

Fred Wendel, CMA, CA
Provincial Auditor

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
BALANCE SHEET
As at March 31

	2006	2005
ASSETS		
Current:		
Cash	$ 2,200	$ 2,158
Due from General Revenue Fund (Note 3)	512	435
Accounts receivable	1,847,254	712,575
Prepaid expenses	110,033	86,312
Inventory	61,081	-
	2,021,080	801,480
Restricted cash	60,818	-
Property, plant and equipment (Note 4)	3,197,384	3,330,315
Intangible assets (Note 5)	118,390	-
	$ 5,397,672	$ 4,131,795
LIABILITIES AND NET ASSETS		
Current:		
Bank indebtedness (Note 6)	$ 664,551	$ 486,885
Accounts payable and accrued liabilities	1,005,889	311,437
Unearned revenue	182,577	91,408
	1,853,017	889,730
Deferred capital grants	1,890,171	1,815,086
Due to Government of Alberta (Note 7)	23,938	23,938
	1,914,109	1,839,024
Total liabilities	3,767,126	2,728,754
Net assets (Statement 2)	1,630,546	1,403,041
	$ 5,397,672	$ 4,131,795

Commitments (Note 8)

(See accompanying notes to the financial statements)

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
STATEMENT OF REVENUES, EXPENSES AND NET ASSETS
Year Ended March 31

	Budget (Note 13)	2006	2005
Revenues			
Provincial transfers:			
Saskatchewan			
- Department of Agriculture and Food	$ 900,000	$ 600,000	$ 650,000
- Agri-food Innovation Fund	-	214,182	-
- Horned Cattle Fund (Note 11)	150,000	151,453	-
Manitoba			
- Department of Agriculture, Food and Rural Initiatives	259,800	259,682	259,682
	1,309,800	1,225,317	909,682
Fee for service	3,171,450	4,249,780	2,378,096
Capital grants	141,000	191,105	117,425
Interest income	-	931	668
Subscription income	8,000	5,458	11,407
Other income	17,800	5,402	16,732
Total revenues	4,648,050	5,677,993	3,434,010
Expenses			
Salaries and benefits	2,435,761	2,791,130	1,946,616
Other operating	1,869,129	2,397,149	1,330,342
Amortization	338,000	262,209	244,529
Total expenses (Schedule 1)	4,642,890	5,450,488	3,521,487
Excess (deficiency) of revenues over expenses	5,160	227,505	(87,477)
Net assets, beginning of year	1,403,041	1,403,041	1,490,518
Net assets, end of year (Statement 1)	$ 1,408,201	$ 1,630,546	$ 1,403,041

(See accompanying notes to the financial statements)

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
STATEMENT OF CASH FLOWS
Year Ended March 31

	2006	2005
Cash flows from operating activities:		
Receipts from customers and others	$ 3,128,229	$ 2,349,860
Transfers from Saskatchewan	1,065,264	650,000
Transfers from Manitoba	259,682	259,682
Payments to suppliers and employees	(4,551,555)	(3,189,219)
Interest paid	(27,074)	(21,454)
Interest received	931	668
	(124,523)	49,537
Cash flows from investing activities:		
Purchase of property, plant and equipment	(116,908)	(40,206)
Purchase of intangible assets	(147,987)	-
Proceeds from sale of property, plant and equipment	6,500	327
	(258,395)	(39,879)
Cash flows from financing activities:		
Receipt of capital grants from Saskatchewan	266,189	-
Repayment of loan	-	(7,952)
Increase in restricted cash	(60,818)	-
	205,371	(7,952)
Net (decrease) increase in cash position	(177,547)	1,706
Cash position, beginning of year	(484,292)	(485,998)
Cash position, end of year	$ (661,839)	$ (484,292)
Comprised of:		
Cash	$ 2,200	$ 2,158
Due from General Revenue Fund	512	435
Bank indebtedness	(664,551)	(486,885)
	$ (661,839)	$ (484,292)

(See accompanying notes to the financial statements)

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
NOTES TO THE FINANCIAL STATEMENTS
March 31, 2006

1. Status of Institute

The Prairie Agricultural Machinery Institute (Institute, PAMI) is a body corporate operating under *The Prairie Agricultural Machinery Institute Act, 1999*. Its primary purpose is to perform tests and conduct research on machinery and equipment used in the agriculture and food industries. The Institute's testing facilities are located in Humboldt and Lanigan, Saskatchewan and Portage la Prairie, Manitoba.

On wind-up, any net assets will be divided between Saskatchewan and Manitoba in proportion to their respective share in the Institute's assets equivalent to the percentage of funding provided to date by each province (about 70% and 30% respectively).

The Institute relies on funding from the Governments of Saskatchewan and Manitoba and on one customer for continued fee for service. This customer accounts for 28% (2005 - 21%) of its fee for service revenue.

2. Significant accounting policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. The significant accounting policies are as follows:

a) Revenue recognition

The Institute recognizes provincial transfers when received or receivable. The Institute's operations are funded by the Government of Saskatchewan (Saskatchewan) and the Government of Manitoba (Manitoba) according to an agreement between the two provinces. Under Order in Council 1800/79, the Institute is not required to return the unused portion of the provincial transfers.

The Institute recognizes fee for service revenue when the related services are provided. It recognizes fee for service on contracts and subscriptions using the percentage of completion method. It records monies received prior to providing services and subscriptions received for future periods as unearned revenue.

The Institute defers capital grants for property, plant and equipment until the related assets are put in use and amortized. It recognizes capital grants as revenue equal to the amount of amortization charged for those assets. Unspent capital grants are recorded as restricted cash.

b) Inventory

Inventory is valued at the lower of cost and net realizable value.

c) Property, plant and equipment

Property, plant and equipment costing over $1,000 are recorded at cost less accumulated amortization. Self-constructed assets are recorded at cost, including labour and materials. Amortization is recorded using the declining balance method over the asset's estimated useful life at the following rates:

Buildings	5%
Equipment, furniture, and vehicles	10%
Computer equipment	30%

d) Intangible assets

Intangible assets are recorded at cost less accumulated amortization. These assets are being amortized over their estimated useful life of five years.

3. Due from General Revenue Fund

Due from General Revenue Fund is monies held in a bank account included in the Government of Saskatchewan's Consolidated Offset Bank Concentration arrangement. The Institute receives interest on a quarterly basis from the General Revenue Fund calculated using the Government of Saskatchewan's thirty-day borrowing rate and the Institute's average daily bank account balance. For 2006, the average interest rate was 2.82% (2005 – 2.19%).

4. Property, plant and equipment

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Buildings	$ 4,165,471	$ 2,216,982	$ 1,948,489	$2,042,146
Equipment	1,855,282	1,149,792	705,490	720,163
Land and improvements	279,841	-	279,841	279,841
Furniture	136,255	117,675	18,580	21,909
Vehicles	398,708	224,244	174,464	186,399
Computer equipment	381,300	310,780	70,520	79,857
	$ 7,216,857	$ 4,019,473	$ 3,197,384	$3,330,315

5. Intangible assets

	2006			2005
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Intangible assets	$ 147,987	$ 29,597	$ 118,390	$ -

As part of the transfer of the operations of Western Beef Development Centre to PAMI, the Institute obtained the Centre's trade name, logo and mailing lists for its use in future operations.

6. Bank indebtedness

The Institute is authorized to borrow up to $1.0 million under its legislation. The Institute has established a line of credit of $600,000 with a bank and assigned its accounts receivable as collateral. It incurs interest at the bank's prime rate.

7. Due to Government of Alberta

When the Government of Alberta terminated its participation in 1988, the Institute, by agreement, owed Alberta 35% of the Institute's net assets as of March 31, 1988. In lieu of transferring net assets to the Government of Alberta, the Institute has agreed to perform services for Alberta. Due to the nature of this payable, its fair value cannot be readily determined.

8. Commitments

The Institute has agreed to provide future services without charge for several research and development contracts. At March 31, 2006, the value of these services totals $120,282 (2005 - $64,323).

Lease terms on equipment and land range from 3 to 10 years. In 2006, these lease costs totalled $34,301 (2005 - $34,175). The Institute is required to make the following minimum lease payments on these leases:

2007	$ 35,402
2008	19,990
2009	14,246
2010	9,566
2011	6,322

9. Financial instruments

a) Fair value

The fair values for the following financial instruments approximate their carrying values due to the immediate or short-term nature of these instruments:

i) accounts receivable
ii) bank indebtedness
iii) due from General Revenue Fund
iv) accounts payable and accrued liabilities

b) Credit risk and currency risk

The Institute is exposed to credit risk from the potential non-payment of accounts receivable. The credit risk on these accounts receivable is minimal because most contracts are with provincial and/or federal governments or well-established large private companies. The Institute is exposed to currency risk when the value of its accounts receivable denominated in U.S. currency fluctuates with changes in exchange rates. At year-end, these accounts receivable amounted to $138,741 (2005 - $94,442).

10. Related party transactions

These financial statements include transactions with related parties. The Institute is related to all Saskatchewan Crown agencies such as departments, corporations, boards and commissions under the common control of the Government of Saskatchewan. The Institute is also related to all Manitoba Crown agencies because of the Government of Manitoba's participation in the operations of the Institute. In addition, the Institute is related to non-Crown enterprises that the Government of Saskatchewan or the Government of Manitoba jointly controls or significantly influences.

Routine operating transactions with related parties are recorded at the agreed upon rates and are settled on normal trade terms. Those transactions and amounts outstanding at year-end are as follows:

Financial statements category	2006	2005
Fee for service revenue	$ 834,988	$ 348,769
Operating expenses	716,654	410,817
Accounts receivable	131,851	165,546
Accounts payable and accrued liabilities	163,613	76,747
Unearned revenue	62,772	-

PAMI has leased land from the University of Saskatchewan for a nominal amount until 2012. In addition, the Institute pays Saskatchewan and Manitoba provincial sales tax on its taxable purchases made in those provinces. Taxes paid are recorded as part of the cost of those purchases.

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and the notes thereto.

11. Contractual arrangements

Under contract with Western Canada Testing Inc. (WESTEST), the Institute manages and operates WESTEST under the direction of WESTEST's Board of Directors for a certain percentage of the service fees from WESTEST clients. During the year, the Institute earned fee for service revenue of $445,368 (2005 - $505,124) from WESTEST. At year-end, accounts receivable includes $109,418 (2005 - $173,184) due from WESTEST.

During the year, the Institute assumed direct responsibility for the operations of Western Beef Development Centre, which it previously managed on a fee for service basis. As part of this change, the Institute entered into an agreement with the Horned Cattle Fund for the use of the Fund's herd of 300 head of cattle. The Institute is responsible for the care, feeding, housing and management of the herd. All proceeds from cattle sales are directed to PAMI for its use in beef research and technology transfer.

Notes

12. Pensions

The Institute's employees participate in either the Public Service Superannuation Plan, a multi-employer defined benefit pension plan, or the Public Employees Pension Plan, a multi-employer defined contribution pension plan. The Institute's responsibility is limited to paying the required employer contributions for its employees. Salaries and benefits include contributions of $96,962 (2005 - $79,386).

13. Budget

The budget for 2005/2006 was approved by the Board on March 24, 2005.

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
SCHEDULE OF EXPENSES
YEAR ENDED MARCH 31

	Budget	2006	2005
Salaries and benefits	$ 2,435,761	$ 2,791,130	$ 1,946,616
Shop supplies	278,929	824,568	160,414
Contractual services	259,000	394,548	210,841
Travel and vehicle operations	370,500	281,405	276,615
Amortization	338,000	262,209	244,529
Insurance, licences and property taxes	236,700	220,506	216,434
Utilities	137,500	131,620	126,483
Stationery and office supplies	87,500	114,309	67,226
Farm expense	137,000	90,875	-
Repairs and maintenance - building and equipment	86,500	84,698	49,558
Telephone	63,100	53,292	56,562
Advertising and promotion	42,500	50,573	26,254
Computer services	38,000	44,788	32,502
Lease – land and equipment	32,300	31,286	29,890
Professional and technical services	22,500	27,083	33,439
Interest expense	15,100	27,074	21,454
Reference material	20,000	9,263	9,581
Bad debt expense	19,000	-	5,705
Printing and binding	15,500	7,461	5,629
Honoraria	7,500	3,800	1,755
	$ 4,642,890	$ 5,450,488	$ 3,521,487

PAMI's Staff

Corporate Management Team

Gullacher, David	President/Chief Executive Officer
Broad, Barrie	Vice President, Corporate Services, Quality Systems Manager
Chorney, Harvey	Vice President, Manitoba Operations
Wassermann, Jim	Vice President, Saskatchewan Operations

Administrative & Financial Services

Emerson, Wendy	Administrative Supervisor, Quality Systems Coordinator
Bergermann, Carol	Controller
Britz, Myrna	Administrative Assistant
Lepage, Dianne	Administrative Assistant
Malinski, Marilyn	Accounting Supervisor
Parisian, Aimee	Administrative Assistant
Szautner, Laurie	Administrative Supervisor, Quality Systems Coordinator

Communication Services

Doepker, Sharon	Research Librairian
Freistadt, Brenda	Administrative Assistant

Western Beef Development Centre

Froehlich, Leah	Farm Research Technician
Kirzinger, Russel	Farm Supervisor
Lardner, Dr. Herbert	Cow/Calf Specialist
Lang, Katherine	Beef Economist

Technical Services

- including Harvesting, Soils and Crops, Energy and Processing, Applied Technologies, Mechanical Engineering, and Package Testing

Bjarnason, Tyrell	Project Leader
Burke, Harry	Project Development
Burton, Gregory	Computer Systems Administrator
Carmichael, Ken	Computer Systems Administrator, Instrumentation/Electronics Supervisor
Carr, Terry	Assistant Manager, Package Testing
Cropper, Robert	Project Leader
Cross, Errol	Project Technician
Gregg, Nathan	Project Leader
Harmon, Jason	Computer Systems Technician
Hill, Les	Project Development
Hultgreen, Gordon	Project Leader
Kelly, Dave	Project Leader
Knox, Michael	Project Leader
Landry, Dr. Hubert	Project Leader
Leduc, Philip	Senior Manager, R & D
Lucyshyn, Troy	Project Development
Lung, Patricia	Project Leader
Marianchuk, Mark	Project Leader
Rhodes, Peter	Project Leader
Rude, Derek	Project Leader
Stock, Wayne	Project Leader
Swiddle, Steve	Project Development

Shop Services

Bay, Ted	Supervisor
Cleaver, Cam	Project Technician
Cook, Murray	Fabricator
Doepker, Gordon	Maintenance
Perlett, Darryl	Fabricator
Rauert, Andrew	Fabricator
Smith, Art	Supervisor

Corporate Services
P.O. Box 1150, Highway #5 West
Humboldt, SK S0K 2A0
Phone: (306) 682-2555
Fax: (306) 682-5080
E-mail: pami@sasktel.net

Saskatchewan Operations
P.O. Box 1150, Highway #5 West
Humboldt, SK S0K 2A0
Phone: (306) 682-5033
Fax: (306) 682-5080
E-mail: humboldt@pami.ca

Manitoba Operations
P.O. Box 1060, 390 River Road
Portage la Prairie, MB R1N 3C5
Phone: (204) 239-5445
Fax: (204) 239-7124
E-mail: portage@pami.ca

Websites: www.pami.ca
www.westest.ca

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE

CONSOLIDATED REPORT

2005 – 2006

PAMI

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE
CONSOLIDATED REPORT

March 31, 2006

Vendors Over $50,000

Vendor	Amount
Western Beef Development Centre	$ 213,778
Public Employees Superannuation	186,815
Royal Bank Visa	165,538
AON Reed Stenhouse	141,241
Partners Metals	131,961
PIMA Group Insurance	81,856
Thompson Travel	64,522
Sakatchewan Power	56,474
HB International	54,051
Total	$ 1,096,234

PRAIRIE AGRICULTURAL MACHINERY INSTITUTE	
CONSOLIDATED REPORT	
March 31, 2006	
Salaries and Payments Over $50,000	
NAME	AMOUNT PAID
Gullacher, David	$ 91,829
Leduc, Phillip	91,971
Hill, Leslie	89,647
Chorney, Harvey	89,559
Wassermann, James	88,729
Lucyshyn, Troy	83,914
Lardner, Hubert	80,876
Broad, Barrie	78,346
Swiddle, Steve	74,985
Bay, Ted	74,488
Carmichael, Kenneth	74,423
Burton, Gregory	66,411
Kirzinger, Russell	62,258
Kelly, David	62,140
Cropper, Robert	59,990
Smith, Art	59,728
Gregg, Nathan	59,230
Rude, Derek	58,099
Bergermann, Carol	57,832
Stock, Wayne	57,813
Bjarnason, Tyrell	57,225
Landry, Hubert	54,886
Malinski, Marilyn	54,539
Hultgreen, Gordon	53,081
Rauert, Andrew	51,537
TOTAL	$1,733,533